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 FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 10
 WEEK OF 13 JULY - 19 JULY 1948

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

Australian views on the Berlin crisis indicate support of the US-UK stand in western Europe (page 3).

UK and Indian interests are being affected by the Burmese nationalization program (page 3).

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A labor offensive led by over 2 million Japanese government workers developing out of their dissatisfaction with the cabinet-sponsored 3791 yen wage base is likely to reach a peak after August and in view of widespread labor unrest will probably precipitate the fall of the Ashida unstable Government (page 4).

Action of military government officials in restricting freedom of assembly raises questions as to method of dealing with government workers' strikes which in past have occasioned SCAP intervention to prevent national disaster (page 4).

Rhee Syngman has been virtually unopposed in laying the legal groundwork for the establishment of a personal dictatorship in South Korea (page 4).

In China, the National Government is confronted by serious threats from several quarters. The dissident group in Hong Kong under Li Chi-shen may attempt in the near future to set up a rival provisional government (page 6).

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SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERAL

Australian views on the Berlin crisis

Australian support of the US-UK stand vis-a-vis the USSR in Berlin was affirmed by Prime Minister Chifley following a recent one day trip to that city. Foreign Minister Evatt described the Prime Minister's statement as a practical demonstration of the solidarity of the British Commonwealth and expressed his view that by their actions the Western powers were protecting their undoubted juridical rights. These statements may have been made to allay the impression created by the Australian Ambassador to Moscow, who recently indicated that Australia and other remote Western countries needed to be convinced that the Allied position on Berlin was justified. "B"

UK and Indian interests affected by Nationalization Program

UK and Indian interests have been the most severely affected by recent implementation of Burma's program of state socialism. Indians have incurred the greatest loss as a result of confiscatory land and property legislation, while the British had to relinquish control of the Irrawaddy Flotilla Company and part of the teak industry when they were nationalized by the Burmese Government on 1 June 1948. "B"

India is not in a position, at this time, to press Indian demands on the Burmese Government. On the other hand, the Anglo-Burmese Treaty provides for the payment of adequate compensation to British firms which are nationalized. The UK is now primarily concerned with assisting interests in obtaining this remuneration, and in view of its own domestic policy is forced to regard Burmese plans and aspirations with tolerance. However, if Burma were to disregard the treaty provisions, and institute a program of indiscriminate expropriation without compensation, the UK may adopt a stiffer attitude. The UK can place heavy economic pressure on Burma because (1) Burma depends on the UK for advice, technical assistance and a large percentage of its imported manufactured goods and petroleum products, (2) Burma's currency is backed largely by sterling and is managed by a British-dominated Currency Board sitting in London, and (3) Burma receives its share of dollars from the dollar pool to which Burma's contributions are negligible.

Although Prime Minister Thakin Nu has insisted that Burma will honor its treaty commitments, it is possible that as a result of the present unsettled political situation, extreme left wing elements may gradually force their anti-compensation policy on the government. In any case, the Burmese will probably attempt to postpone and prolong negotiations concerning compensation in order to settle on the most advantageous terms.

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Labor offensive poses questions on Occupation exercise of police powers. "B"
Military government officials in Central Japan have tightened up restrictions on freedom of public assembly. These steps, while directed in part to improving the ability of Japanese police to cope with threats of civil disorder such as those occasioned by the riots of Koreans in April of this year, may anticipate Communist exploitation of disturbances likely to develop this fall in connection with the current government workers attack on the Cabinet-sponsored 3791 yen wage base. Since government workers have twice before been enjoined by SCAP from general strike activities which threatened national disaster, the present labor offensive raises a question as to whether a similar ban may be required or whether repetition of SCAP intervention can be avoided by police limitations on activities in excess of legitimate labor rights.

KOREA

Rhee Syngman has been virtually unopposed in laying the legal groundwork for establishment of a personal dictatorship. The constitution and implementing legislation recently passed by the Korean Assembly provide for a centralized government in which the president is delegated very wide powers, and on 20 July Rhee became president by virtue of an over-

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KOREA (Cont.)

whelming Assembly vote. The Hankook Democratic Party, which had been expected to offer considerable opposition to Rhee, has failed to do so probably because of its lack of a widespread popular following comparable to that which Rhee possesses.

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CHINA

Marshal Li Chi-shen, leader of the dissident Kuomintang Revolutionary "B" Committee in Hong Kong, may soon attempt to set up a rival "provisional government", probably in southwest China. This step might set in motion a chain of developments of the gravest consequences to the Kuomintang and the Chiang Kai-shek government. Li Chi-shen intends to call for the cessation of the civil war, the convening of a new Political Consultative Conference, from which Chiang Kai-shek would be excluded, and the resumption of negotiations leading to the formation of a coalition government including the Communists. The Marshal claims to have the promise of Vice President Li Tsung-jen of similar action in the north. However, it is likely that initially Li Tsung-jen and Fu Tse-yi, the most prominent Nationalist leader in North China, will adopt a "wait and see" attitude, and allow their subsequent actions to be governed by the course of events.

Dissatisfaction with Sino-Soviet relations has been expressed publicly "A" by the Nationalist vice-president and by members of the Legislative Yuan, both of whom have denounced Soviet violations of the 1945 treaty. Meanwhile the Soviet Ambassador in Nanking has resumed discussions with Nationalist officials concerning peace negotiations with the Communists. Such overtures appear to be made to any Nationalist official who may be receptive, perhaps with the intent of furthering disunity in the Government at Nanking. If circumstances become propitious, the USSR may offer to mediate or provide its good offices to help bring about an end to the war. The USSR may estimate that a continuation of hostilities will insure continued and increased US aid and further extension of US influence over Nationalist China. The USSR probably reasons, as the Chinese Communists may themselves, that the establishment of a coalition government would facilitate Communist political penetration. In addition, the USSR could reap substantial propaganda benefits from a successful Soviet mediation of the war, or even from an offer to mediate.

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The economic collapse of the National Government is impending. The "A" recurrent and increasingly serious economic crises experienced by Nationalist China since V-J day, and the apparent inability of the Government to cope with these emergencies, have prompted repeated but premature predictions that the Government was faced with "imminent" financial collapse. The basic inertia of its loosely integrated agricultural economy, however, has enabled China to withstand stresses that would have long since plunged a more complex and highly industrialized country into economic chaos. It now appears, however, that the fundamental cause of China's economic difficulty, the printing press method of financing the civil war, is producing its logical and final result:

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repudiation of the National currency. In South China, prices are quoted in terms of the Hong Kong Dollar; in Shanghai and other large cities, merchants are reluctant to part with their merchandise; throughout China, there is evidence that barter is becoming a common means of exchange. It is very dubious whether US Aid can be effective in checking this trend.

The repudiation of the National currency will throw the limping economies of the large urban areas into complete chaos and produce concomitant civil disturbances of serious proportions. In addition, repudiation will have serious implications on the battle fronts; the procurement of supplies and the payment of troops are accomplished at least in part through the use of currency and in the light of the already shaken morale of the Army, it is problematical whether any kind of a military force can be maintained if the Government's money is not acceptable.

Highlight of the military activity in China last week was the fighting "A" in central Shansi Province where Yen Hsi-shan's holdings have been further reduced and his capital, Taiyuan, brought under direct assault by strong Communist forces under Hsu Hsiang-chien and Ho Lung. In Hopeh the Communists are once again attacking the rail line between Peiping and Paoting in a move designed to divert Yu Tso-yi's troops into this area before undertaking any further actions in the Tientsin-Chinhhsien corridor. The big Nationalist base at Hsuehou is being menaced by Communist movements on three sides of that city; the loss or neutralization of this base would be an extremely serious blow to the National Government. The Communists expanded their hold on the Han River area in northwest Hupoh when they occupied Lachokou and Hsiangyang. Meanwhile, in their first offensive movement in months, Manchurian Nationalist forces pushed south from Mukden, capturing Liaoyang and approaching Anshan. This drive, now described as a food gathering action, was initially planned as an attempt to trap a Communist column, but the Communists, warned by Nationalist concentrations, escaped.

Current Communist military activity is still confined, at least in intramural China (China Proper), to their usual guerrilla tactics--destruction of Nationalist units and communications coupled with the accumulation of food and war materiel. Only at points where Nationalist economic deterioration and morale decay has reached an advanced stage and where the Communists therefore possess preponderant strength will the Communists attack a city with the purpose of final occupation. This stage, previously reached throughout most of southern Manchuria, is now being reached in a growing number of separate regions of China Proper.

Opening of certain Chinese inland ports to foreign flag vessels is "B" being seriously considered by the Ministry of Communications, despite vigorous protests by Chinese shipping circles and stevedoring interests. According to the Ministry, such action, if taken, would be based on precedents established by certain other countries and would include safeguards taken to prevent the UK from regaining its prewar dominant position on the Yangtze

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as well as to provide resistance to possible Soviet demands for unlimited participation in inland shipping. The US has been attempting, because of the deficiencies of native shipping, to persuade the Chinese Government to rescind its ban on foreign river shipping which was initiated at the end of World War II in deference to Chinese sensitivity on its sovereign rights as well as to limit foreign (particularly UK) dominance in China shipping. Despite continued popular sentiment against the opening of inland ports to foreign ships as well as the opposition of certain Government organs, the Government has recently opened Hanking and Hankow to US relief ships.

The arrival in the US of a Tibetan Trade Mission has aroused Chinese concern over possible change in US policy regarding recognition of Chinese sovereignty over Tibet. The Chinese Embassy in Washington, in pointing out that the members were travelling on Tibetan (rather than Chinese) passports which were visaed by the US Consulate General in Hong Kong, emphasized its desire that the US deal with the mission as representing a part of China, not an independent state. The Chinese Foreign Office has indicated the Chinese Government will refuse to recognize any arrangement for agreements made by the Tibetans unless handled through the Chinese Embassy. The question of Chinese sovereignty over Tibet is a very delicate issue in China at the present time and the Foreign Office fears adverse repercussions from the publicity given the mission's arrival in the US. A member of the mission, in a press interview, evidenced strong feelings of independence and a general non-recognition of Chinese suzerainty. "C"

Currency and Prices. By withholding the issuance of notes the Central Bank created a tight money market last week resulting in a temporary lull in China's sweeping inflation. This condition was short-lived, however, and by 17 July prices and foreign exchange rates were again out of hand. The Shanghai blackmarket exchange rate for US dollars reportedly reached over CN \$8 million to 1. on the 19 July; the price of rice followed reaching a new high of CN \$34 million a picul. Commodity prices in general rose around 100% in the past two weeks. The principal contributing factor to this new upheaval was the announcement that large denomination notes valued at CN \$200,000, \$500,000, 1 million and 5 million would be put into circulation. (CN \$100,000 was the largest note heretofore). An unconfirmed report states that the first of these new notes were released in Shanghai on 19 July. "C"

The Shanghai Market:

	<u>US \$ Exchange (Selling Rate)</u>		<u>Wholesale Price of Rice</u>
	<u>Official "open"</u>	<u>Blackmarket</u>	<u>per 172 lb picul</u>
This week (16 Jul 48)	CN \$480,000	CN \$5,600,000	CN \$30,000,000
Week ago (9 Jul 48)	480,000	4,400,000	24,000,000
Month ago (16 Jun 48)	480,000	1,950,000	10,700,000
Year ago (16 Jul 47)	12,000	42,000	390,000

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Show of force by Phibul Government eases tense political situation. "B"

Under the guise of preventing a Communist-inspired strike, the Phibul Government has averted a crisis, at least temporarily, by a show of armed strength. The threat of a general strike, allegedly to support resolutions in neighboring areas, provided the Phibul regime with an excuse to mobilize troops to guard strategic installations and to head off a show-down by opposition groups. Tension was further relieved by agreement of the Parliament majority to pass the new budget as proposed by the Phibul Government. However, the issue of the late King's death and the serious schisms among Phibul's military supporters remain basic for an abrupt shift in power.

BURMA

Appointment of "caretaker" government sidetracks political crisis. "B"

The President of Burma on 16 July accepted the resignations of Prime Minister Thakin Nu and his entire cabinet. However, they were immediately reappointed as a caretaker government pending the election of a new Prime Minister by Parliament which is scheduled to convene 15 August. The fact that Nu did not exercise his prerogative to "advise" the President to summon Parliament into special session indicates that he is awaiting political developments before making a final decision to relinquish his office. In view of this development and the continuing political deterioration, it is considered likely that Nu will be "prevailed" upon to continue as Prime Minister.

FRANCH INDOCHINA

Viet Minh forces demonstrate ability to undertake economic sabotage. "C"

A 25 percent rise in Saigon's open market price of rice has been reported, which apparently resulted from the sinking by Viet Minh forces, of over one hundred loaded rice barges en route to Saigon. Although exact information is unavailable, because the sinking took place within Viet Minh territory, estimates of the loss range from 14,000 to 25,000 tons. Because of the large stocks held in Saigon, the supply situation and the government export program will not be affected immediately. However, this incident is an indication of the economic weapon available to Ho Chi Minh should he decide on widespread harassment of the French-sponsored provisional central government of Vietnam.

AUSTRALIA

Australian Prime Minister makes proposals in UK. "C"

The main purpose of Prime Minister Chifley's current visit to London is to work out with UK officials a coordinated policy with which to meet the problems of Britain's economic recovery and the sterling area's dollar shortage.

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AUSTRALIA (continued)

Mr. Chifley is reported to have stressed increased Australian production of primary products, increased exports to dollar countries, and Australian willingness to share with Britain the risks of obtaining a dollar loan from the US. The latter constitutes a reversal of earlier Government statements which denied that such a course was contemplated.

The Prime Minister also has submitted a long-range plan providing for immigration to Australia of 15 million Britishers. The present target is 50,000 a year although lack of shipping and Australian housing has limited 1947 arrivals to 23,500. In view of the estimated 400,000 who have applied for passage, a priority system has been devised giving preference to those who have arranged for their own housing and who are readily employable in some of Australia's 100,000 vacant jobs.

The Australian Government had previously proposed large scale transfers of population and industries from the UK, believing that such dispersal of British resources was necessary both for defense and for the realization of the Empire's economic potential. The British are concerned about their own manpower situation and have been content to let shipping and other problems defer action on the Australian proposals. The Prime Minister's present plan would appear to be an attempt to secure British acceptance of a definite program.

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OUTLOOK FOR THE NEW JAPANESE GOVERNMENT
WORKERS' DISPUTE*

The chronic dispute between the Japanese Government and the pre-dominantly leftist-controlled unions of government and public employees, which embrace about a third of organized labor in Japan, has entered a new and foreboding phase. As the pivot of the anticipated "summer offensive," the dispute threatens to deal the Ashida cabinet a coup de grace and to aggravate the existing economic disequilibrium.

The government workers, after a period in which some components then under moderate leadership sought to cooperate with the government, are now united in a demand for an average monthly wage level of 5,200-yen as against the 3,791-yen level incorporated in the recently passed budget. Coupled with this is an organized trade-union campaign, articulated by the government workers, for the resignation of the Ashida cabinet.

The wage question has recently been submitted to the Central Labor Relations Committee for mediation. Successful mediation seems unlikely. Although the hastily adopted 3,791-yen level is considered in official quarters to be unrealistic in terms of costs of living, the government would find it very difficult for financial and political reasons to meet the trade-union demand. The wide gap between this demand and what the government may offer, moreover, is likely to weaken the rank and file influence of trade-union moderates and Socialist members of the Cabinet as against that of the Communists.

By August 7, if mediation fails, most government employees' unions will be legally free to strike. Given extremist leadership and its apparently increasing support in these unions, a period of widespread labor troubles seems probable, perhaps culminating -- for the third time under the occupation -- in a threat of general strike. While SCAP unquestionably could prevent such a strike by another eleventh-hour verbal injunction, its intervention would underscore again the inability of the government and its employees unions to settle their differences autonomously under current economic conditions.

*INTELLIGENCE MEMORANDUM, No. 106, July 20, 1948
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